

Markets This Week Ahead of the Open

Key Takeaways

- Markets remain headline-driven and defensively positioned, with short-lived rallies unlikely to sustain without credible de-escalation in geopolitical tensions
 - Broad-market indexes continued their downtrend alongside a steepening yield curve
 - The artificial intelligence environment reaffirms the fundamental approach being taken by investors
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This past week equities and broad market indexes displayed volatile price action as markets reacted to developments that reinforced both the potential resolution and continuation of the Iranian conflict.

At the beginning of this week, President Trump announced a delay in strikes on Iranian energy infrastructure following positive talks between the two countries, an announcement met positively by investors. In response, equities and metals advanced during the opening of this week's session, while the dollar and yields contracted. This move, however, was short-lived after Iran announced that negotiation talks had not taken place, and continued its strikes on its Middle-Eastern counterparts. At Monday's close, markets reversed their prior gains, and closed down on the day, further continuing the downtrend markets have experienced.

However, this contractionary price action reversed on Wednesday after reports emerged detailing a fifteen-point plan developed by the U.S. aimed at resolving the conflict. Market price action followed that of Monday's, but unlike the prior day, broad-market indexes and metals closed higher. The following two trading sessions, however, markets reversed and continued their retraction.

The conflict with Iran has seen the continued reinforcement of a risk-off environment, in which capital continues to rotate out of risk assets such as equities and into safe-havens. What's key to note, especially within haven assets, is that this movement has continued to drive yields up. The 10-year Treasury closed at 4.4% on Friday, its highest level in six months and roughly 40 basis points above its pre-war low. The movement of higher-dated treasuries has continued to contribute to the steepening of the yield curve, a trend that signals heightened investor concern regarding inflationary expectations. This trend was already evident prior to the conflict when the Fed began easing, but it has since become significantly more pronounced.

Outside of geopolitical developments, this week had also seen the reemergence of positive investor sentiment regarding the current AI environment. On Tuesday, ARM announced its first ever CPU chip, an announcement that saw shares rise as high as 15% during the stock's pre-market session. This recent move signals that the AI environment hasn't completely been boxed out by investors, yet it is still much different. In the past, especially during the initial euphoria stage, investors were allocating capital to any name involved with artificial intelligence. During the start of this year, we saw this change, as many investors began questioning the prospects of those they were investing in. The approach has now become much more fundamental, in which

emphasis now remains on successfully differentiating growth prospects of all those in this environment, and determining who is set to prosper.

While a move in the right direction, much of the attention surrounding it was subdued primarily due to broader market concerns. For now, this current risk-off episode remains, as investors become more defensive in order to protect capital. Signs of a resolution were present during this week, but this wasn't enough to change the ongoing sentiment. Iran continues to deflect any negotiation talks, and until there's any sign of change, a defensive strategy continues to be advised.